

State of Florida



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Public Service Commission

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FEDERAL COMMUNICATIONS COMMISSION
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M E M O R A N D U M

November 2, 1995

TO: State Regulatory Commissions
Industry Associations
(Specific addressees on attached list)

FROM: NARUC Subcommittee on Accounts, Tim Devlin, Vice Chairman *TD*
NARUC Subcommittee on Depreciation, Pat Lee, Vice Chairman *PL*
Daniel M. Hoppe, Director, Division of Research and Regulatory Review *DH*

SUBJECT: Capitalization Vs. Expense Thresholds

NARUC's Staff Subcommittee on Accounts and Staff Subcommittee on Depreciation have undertaken a project to examine the current thresholds for the capitalization of assets for regulated utilities. Concurrently, the FCC is determining the adequacy of the capitalization threshold of support assets in the telecommunications industry.

This survey is being conducted in order to support a paper exploring the relevant issues for determining capitalization thresholds. We are also looking at the pros and cons of alternative threshold levels.

In order to help assess the *potential* costs and benefits of alternative capitalization thresholds, please respond to the attached survey. To ensure that your response will be included in our analysis, please respond by December 8, 1995. Questions concerning the survey should be addressed to Matthew Brinkley at (904) 413-6838

MGB:tf/d-capita
Attachments

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CAPITALIZATION vs. EXPENSE THRESHOLDS

DATE DATA REQUEST DUE: December 8, 1995
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NATIONAL RURAL WATER ASSOCIATION - Mr. John Montgomery
OPASTCO
UNITED STATES TELEPHONE ASSOCIATION - Mr. Porter E. Childers

CAPITALIZATION VS. EXPENSE THRESHOLD SURVEY

Commission/Association: _____

Contact Person: _____

Position: _____

Address: _____

City, State: _____ Zip Code: _____

Telephone: _____ FAX: _____

PLEASE RETURN NO LATER THAN DECEMBER 8, 1995, TO:

Matthew G. Brinkley
Division of Research and Regulatory Review
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0872

FAX No. (904) 487-1716
ATTN: Matthew Brinkley

1. Does your Commission prescribe a dollar threshold for capitalization of assets? Describe the asset accounts or subaccounts to which the thresholds apply.

UTILITY	THRESHOLD	DESCRIPTION OF ASSETS
Electric		
Gas		
Telecommunications		
Water & Wastewater		
Other		

2. If companies set their own thresholds for capitalization of assets, do you ever question the reasonableness of those thresholds? If so, what guidelines do you use?

UTILITY	YES/NO	GUIDELINES
Electric		
Gas		
Telecommunications		
Water & Wastewater		
Other		

3. Have there been any problems with current thresholds for the capitalization of assets in different industries? If so, please identify the problem(s).

UTILITY	TOO HIGH	TOO LOW	ARBITRARY	OTHER
Electric				
Gas				
Telecommunications				
Water & Wastewater				
Other				

4. Have companies bundled or unbundled expenditures in order to circumvent the thresholds? If so, please explain.

5. Describe the criteria important in determining an appropriate capitalization threshold.

6. If a threshold is changed or established, should it be a set dollar amount or based on materiality (a percentage of plant or earnings)? What threshold would you recommend?

UTILITY	AMOUNT/PERCENT	RECOMMENDED THRESHOLD
Electric		
Gas		
Telecommunications		
Water & Wastewater		
Other		

7. Would your recommendation change based on the size of the company (large vs small)? Please explain.

8. Describe the costs and benefits of changing or establishing thresholds for capitalization of assets as recommended in question 6.

UTILITY	COSTS AND BENEFITS
Electric	
Gas	
Telecommunications	
Water & Wastewater	
Other	

9. What costs should be included in the amount to be capitalized?

- ☐ Service contracts
- ☐ Installation labor costs
- ☐ Software
- ☐ Renovation costs to install asset
- ☐ Cost of warranty protection
- ☐ Other (please list) _____

10. What level of administrative and general (overhead) costs should be capitalized?

- ☐ Officer salaries
- ☐ Supervisory (indirect)
- ☐ Supervisory (direct)
- ☐ Accounting
- ☐ Other (please list) _____

11. Please provide additional comments or cost estimates that may be useful in developing thresholds for the capitalization of assets for regulated utilities.